

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

DEC5614 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

8 MARCH 2021

9.00 a.m – 11.00 a.m

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages excluding the cover page.
2. Answer all questions.

Answer all questions.**QUESTION 1****New study suggests raising taxes on e-cigarettes could encourage traditional smoking.**

Sin taxes are excise taxes imposed on goods or behaviours – like booze and cigarettes – that lawmakers deem harmful. In addition to raising revenue, the idea is that bumping taxes high enough should trigger a slowdown in the behaviour. A new study funded by the National Institutes of Health suggests: raising taxes on e-cigarettes in an attempt to curb vaping may cause people to purchase more traditional cigarettes. Economists talk about the response to sin taxes in terms of elasticity. If the idea is to reduce bad behaviour, it's critical to figure out how high you can raise the tax to get people to reduce consumption. Using data from 35,000 national retailers from 2011 to 2017, researchers found that every 10% increase in e-cigarettes prices, e-cigarette sales dropped 26%. But the same 10% increase in e-cigarette prices caused traditional cigarette sales to jump by 11%.

New Straits Times, February 11, 2020

- (a) Based on the article, identify the type of elasticity of demand for cigarettes is and why? (3 marks)

“every 10% increase in e-cigarettes prices, e-cigarette sales dropped 26%. But the same 10% increase in e-cigarette prices caused traditional cigarette sales to jump by 11%.”

Figure 1

- (b) Based on figure 1, explain the elasticity of demand factor that contribute to the increase in the traditional cigarettes when there is an increase in the price for e-cigarettes. (3 marks)
- (c) Aside from the (b) factor, explain another **TWO (2)** factors that influence the elasticity of demand for goods and services. (6 marks)
- (d) If the price of a cigarette increases from RM15 to RM17.50 and the quantity demanded changes from 120 units to 128 units.
- Calculate the price elasticity of demand for the product. (3 marks)
 - Identify whether the demand is elastic or inelastic. (2 marks)

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QUESTION 2

(a) Table 1 shows Aida's consumption on prosperity burger and popcorn.

| Prosperity Burger | | | | Popcorn | | | |
|-------------------|-----|----|---------------|----------|-----|----|---------------|
| Quantity | TU | MU | MU per dollar | Quantity | TU | MU | MU per dollar |
| 0 | 0 | - | - | 0 | 0 | - | - |
| 1 | 126 | | | 1 | 110 | | |
| 2 | 245 | | | 2 | 200 | | |
| 3 | 342 | | | 3 | 250 | | |
| 4 | 420 | | | 4 | 280 | | |

Table 1

- i. Complete the table 1. (8 marks)
 - ii. Identify the combination of two goods that can give Aida maximum satisfaction when consuming prosperity burger and popcorn. (2 marks)
- (b) Alvin loves to buy books and magazines. Initially, the price of a book is RM25 and the price of a magazine is RM18. Due to rapid competition in the industry of e-book services, the price of a book is reduced to RM23.50.
- i. Draw a diagram showing Alvin's consumption possibilities before and after the price of a book decreased. Use the template given below. (3 marks)



Continued...

- ii. While spending his budget on books and magazines, Alvin soon received extra pocket money from his uncle. Kindly draw Alvin's indifference curves for books and magazines before and after receiving the extra pocket money.

(3 marks)



QUESTION 3

- (a) Identify which types of constraints that limit the profit of the company based on the situations given. Why?

- i. Sarah Pizza is still currently using a few bakeries and conventional ovens to produce her company's pizza. But Sarah Pizza only hires one bakery with a few multipurpose ovens to assist her baker cooking the pizzas. (2 marks)
- ii. Izham currently running a company of selling computers. His business somehow did not perform as it should be due to insufficient information about the skilled labours, potential customers and his competitors. (2 marks)
- iii. Nizairies is selling a new brand of t-shirt made from cotton. The price for his t-shirt is RM50 whereas in other stores, same material of t-shirt as Nizairies can be bought at the price of RM25 which makes his customer refused to buy the t-shirt. (2 marks)

- (b) Why a company cannot be economically efficient and technologically efficient at the same time? (3 marks)

Continued...

- (c) Refer to the table 2 below for the production of glasses for Meteor Optometrist Sdn. Bhd.

| Labour (workers per day) | Quantity (glasses per day) | Marginal Product |
|--------------------------|----------------------------|------------------|
| 0 | 0 | |
| 1 | 5 | |
| 2 | 14 | |
| 3 | 22 | |
| 4 | 27 | |
| 5 | 30 | |

Table 2

- i. Fill up the empty columns. (3 marks)
 - ii. At which quantity of labour the diminishing marginal returns begin? (1 mark)
 - iii. Explain why diminishing marginal returns happen in Meteor Optometrist Sdn. Bhd. (2 marks)
- (d) Table 3 below shows the total cost schedule for flour at local factory in Melaka. Determine:

| Output (kg per hour) | Total cost (RM per hour) |
|----------------------|--------------------------|
| 0 | 115 |
| 100 | 131 |
| 200 | 142 |
| 300 | 160 |
| 400 | 177 |

Table 3

- i. The factory's total fixed cost of flour per hour. (1 mark)
- ii. The factory's total variable cost at 200 kg of flour per hour. (2 marks)

Continued...

- iii. The factory's average fixed cost of 200 kg of flour per hour. (2 marks)
- iv. The factory's marginal cost at 300 kg of flour per hour. (3 marks)

QUESTION 4

(a) Ismail is selling chickens in Pasar Borong Melaka and currently unable to raise or lower down the prices as there are competitors selling similar product.

- i. Identify the market structure of Ismail's product. (1 mark)
- ii. Explain **THREE (3)** characteristics of the market structure mentioned in (i) (6 marks)

(b) In perfect competition price and output diagram shown below:

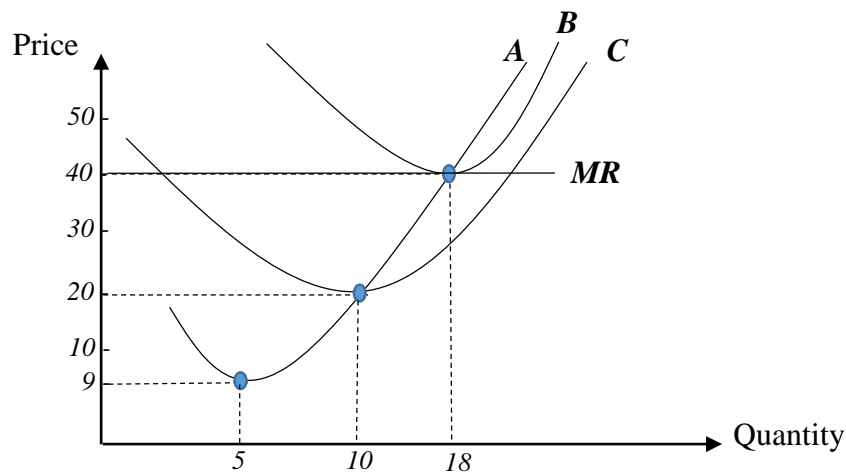


Figure 1

- i. Name the curve A, B, and C based on figure 1 above. (3 marks)
- ii. What type of profit the perfectly competitive firm gets if the price of the product is at:
 - 1. RM40? (1 mark)
 - 2. RM30? (1 mark)

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(c) Sahida has a company that produces cable TV in Melaka. Her company is currently in economies of scale which enable her company to supply the product to the entire Melaka's market at the lowest possible cost.

i. Which market structure does Sahida's company in and why? (2 marks)

ii. Explain **TWO (2)** characteristics of the market structure mentioned in (i). (4 marks)

(d) Monopoly can exist with the government assistance even there are many companies can produce the goods/services. Briefly discuss the factors that can create a monopoly legally. (9 marks)

QUESTION 5

(a) Hakim Inc. is selling its instant noodle at a price of RM4 and at the quantity of 4,000 units. Due to the pandemic of Covid-19, the company is currently facing profit/losses. With the help of a diagram in figure 2 below:

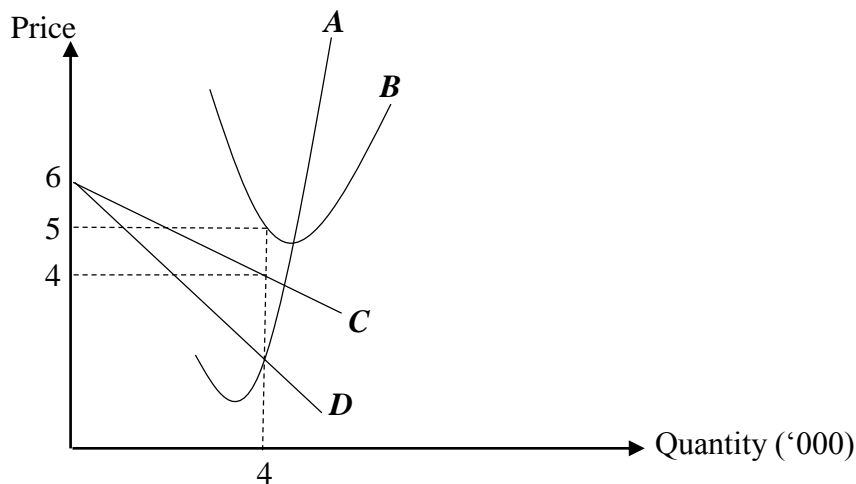


Figure 2

i. Name the curve of A, B, C and D. (4 marks)

ii. Assuming the current price of instant noodle is RM4 and the quantity at the given price is 4,000 units. Calculate the company's profit. (5 marks)

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- (b) For perfect competition and monopolistic competition, there are some similarities and differences between these two market structures. Briefly discuss **TWO (2)** key differences that makes monopolistic competition different from perfect competition. (6 marks)
- (c) Han Jie is owning an airline company and has been operating within the industry with two competitors only. Based on this, explain the characteristics of the market structure for Han Jie's firm is in now. (6 marks)